

# How to Choose an Investment



When you choose to invest your money, the final decision is yours alone. The risk of the investment is also yours.

Before you invest, consider your complete financial situation, looking at both your current and future needs. In general, investors should avoid higher-risk investments unless they have a steady income, adequate insurance, and readily available cash reserves in case of a loss.

Remember these investment basics:

## **Rule one:**

No matter how you choose to invest your money, there will always be a degree of risk involved.

## **Rule two:**

Risk and return go hand-in-hand. Higher returns mean greater risk, while lower returns promise greater safety.

## **Rule three:**

Do not invest in anything you do not fully understand.

# Setting your Investment Goals

Ask yourself, "What do I want to accomplish through my investments?" For most investors, the following investment goals or objectives, or some combination of these, provide an initial answer to that question:

## **Safety**

This objective reflects a conservative investment philosophy with minimal risk of loss of the original investment (the "principal").

## **Income**

An "income" objective is achieved by purchasing investments that provide a stream of income through regular payments, which may or may not decrease the invested principal.

## **Growth**

This category refers to investing for long-term growth or appreciation in market value. Growth investments carry a higher risk than either safety or income oriented investments. Growth investments generally provide little or no dividend income.

## **Speculation**

Speculative investments carry a higher-than-average possibility of loss. This strategy often includes short-term trading of new or unproven companies' stocks or options. Although there is the possibility of higher and faster rewards, speculative investments also are high risk, meaning there is also the possibility of larger and faster losses of some, or your entire principal.

## **Balancing “Risk” and “Return” to meet your goals**

As an investor, you choose your investment goals with an emphasis on one or more of the above categories. You may also wish to allocate portions of your investment portfolio to more accurately express your investment goals.

For example, if you have \$10,000 to invest, you may choose to invest 70 percent (\$7,000) in income securities, 20 percent (\$2,000) in growth securities, and 10 percent (\$1,000) in speculative securities.

Of course, setting a goal and reaching it are two very different things. You may need professional assistance to realize your investment goals and to achieve your financial objectives.

If you choose to work with a broker, communicate your investment goals and financial objectives clearly. Put it in writing and keep a copy for your own records.

Remember, the more money you want to make from your investment, the more risk you must be willing to take. Risk means that you may lose all or part of your principal. If a high level of risk makes you uncomfortable, select your investments accordingly.

## **Get More Information**

There are many sources of information about a company in which you are interested in investing. If you do not know where to look, start by contacting the Hawaii Securities Compliance Branch, of the Department of Commerce & Consumer Affairs. In most cases, securities must be registered with the securities section in each state where they are sold. Information about the company may be available to the public. You should also ask your brokerage firm or investment adviser to assist you in gathering information about the company in which you may invest.

Most companies whose stock is traded over-the-counter or on a stock exchange are required to file "full disclosure" reports on a regular basis with the Securities and Exchange Commission (SEC). These comprehensive reports are available for a modest copying charge by writing to:

Public Reference Room, Mail Stop 1-2  
Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, DC 20549-1002

Pay close attention to business and financial newspapers in your area. Often, these periodicals provide in-depth coverage about a specific company or segment of the industry. Check with your local reference librarian for assistance in identifying appropriate investment related materials.

## Things To Consider

U.S. Treasury Bills ("T-bills") are the benchmark of minimal-risk investments. If an investment is presented as a very low risk, it should produce a rate of return similar to the rates paid on T-bills.

If anyone guarantees your investment against loss, you should immediately contact The Hawaii Securities Enforcement Branch, of the Department of Commerce & Consumer Affairs.

## Additional considerations

Always set aside some of your money for emergencies before you invest.

Ask for advice from a trained and licensed professional.

Be selective in your investment choices. Exercise your right to say "No."

Develop a sensible investment plan and follow it.

Judge each company on its own merits. Do not invest on a company just because it is part of a fast growing and successful industry.

Never invest based on information obtained from an unsolicited telephone call.

Check the credentials of anyone you do not know who offers to sell you an investment.

## For More Information

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